

LAST CHANCE FOR ANIMALS
(A CALIFORNIA NONPROFIT ORGANIZATION)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2021

LAST CHANCE FOR ANIMALS

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COHEN PAGANO

ACCOUNTANCY, INC.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Last Chance for Animals

Opinion

We have audited the accompanying financial statements of Last Chance for Animals (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Last Chance for Animals as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Last Chance for Animals and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Last Chance for Animal's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Last Chance for Animal's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Last Chance for Animal's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

The logo for Cohen Pagano Accountancy, featuring the company name in a stylized, cursive blue font.

Los Angeles, California
August 31, 2022

LAST CHANCE FOR ANIMALS

STATEMENT OF FINANCIAL POSITION

December 31, 2021

ASSETS

Current Assets

Cash	\$	751,103
Contributions receivable (Note 1)		333,110
Prepaid expenses		<u>84,205</u>
Total current assets		1,168,418

Investments - at market (Note 2)

4,017,035

Property, equipment and intangible assets, net (Notes 3 & 4)

108,058

Other assets

2,600

TOTAL ASSETS

\$ 5,296,111

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$	215,040
Line of credit		-
Commitments		<u>-</u>
Total current liabilities		215,040

Net Assets

Unrestricted		4,895,881
Market adjustment - available-for-sale securities		<u>185,190</u>
Total net assets		5,081,071

TOTAL LIABILITIES AND NET ASSETS

\$ 5,296,111

LAST CHANCE FOR ANIMALS

STATEMENT OF ACTIVITIES

Year Ended December 31, 2021

Support and revenue

Donations and contributions	\$ 1,277,699
Grants	400,000
Bequests	1,184,098
Royalties	504
Gain on sales of securities	1,808
Books and merchandise	103
Paycheck Protection Program	115,752
Miscellaneous income	135
Investment income	154,436

Total support and revenue 3,134,535

Expenses

Program services	2,489,112
Fundraising	271,951
Management and general	59,183

Total expenses 2,820,246

Change in net assets from operations 314,289

Non-operating activities

Market adjustment - available-for-sale securities (Note 2)	<u>185,190</u>
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Total non-operating activities 185,190

Change in net assets from activities 499,479

Net assets - beginning of year 4,581,592

Net assets - end of year \$ 5,081,071

LAST CHANCE FOR ANIMALS

STATEMENT OF CASH FLOWS

Year Ended December 31, 2021

Cash flows from operating activities	
Change in net assets	\$ 314,289
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Amortization	9,596
Depreciation	17,637
Changes in operating assets and liabilities:	
Contributions receivable	(164,507)
Refunds receivable	(1,505)
Prepaid expenses	(8,825)
Other assets	15,298
Market Adjustment	185,190
Accounts payable	125,965
	<hr/>
Net cash provided from (used in) operating activities	493,138
Cash flows provided from (used in) investing activities	
Purchases of equipment	(12,873)
Purchases of intangibles	(71,980)
Endowment - Investment Account	(310,724)
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Net cash provided from (used in) investing activities	(395,577)
Cash flows provided from (used in) financing activities	
Line of credit (Note 5)	-
	<hr/>
Net increase in cash	97,561
Cash, beginning of the year	653,542
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Cash, end of the year	\$ 751,103

See accompanying notes to financial statements.

LAST CHANCE FOR ANIMALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

1. Nature of Organization and summary of significant accounting policies

Nature of Operations

Last Chance for Animals, a California non-profit public benefit corporation (the "Organization"), was organized for ending animal abuse and exploitation through investigations, education, public outreach, advocacy, and campaigns.

COVID-19 pandemic - At the time of this report's release, citizens and the economies of the United States and other countries have been impacted by the coronavirus (COVID-19) pandemic. The World Health Organization declared a Public Health Emergency on January 30, 2020. The evolution of the virus, the extent of its economic impact and the results of steps taken and yet to be taken by governments and financial institutions are unknown. Governments, businesses, and non-profit organizations have faced supply chain disruptions, labor shortages, revenue declines, an increase in bad debts, reduced cash flow, difficulties meeting loan covenants, goodwill and inventory impairment, credit difficulties, and other financial implications. Furthermore, the financial markets have experienced significant levels of volatility as a result of the pandemic. The significance and the duration of the pandemic's fiscal impact are indeterminable.

Basis of Accounting

The Organization uses the accrual method of accounting and conforms to the AICPA Audit and Accounting Guide *Not-for-Profit Organizations*.

Financial Statement Presentation

The Organization reports cash contributions and gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how or when the donated assets must be used.

Net Assets

Unrestricted Net Assets — is the part of the net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of the Organization and the purpose specified in its articles of incorporation or bylaws. Temporarily restricted net assets are treated as unrestricted net assets if the purpose of the donor-imposed restrictions is satisfied in the year in which the restricted contributions are received.

Temporarily Restricted Net Assets — is the part of the net assets of the Organization whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. The Organization has no temporarily restricted net assets on December 31, 2021, and had none during the year then ended.

Permanently Restricted Net Assets — the part of the net assets of the Organization whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization has no permanently restricted net assets on December 31, 2021, and had none during the year then ended.

Expense Allocation

Expenses are charged to program, fundraising, and management/general activities. Management and general expenses include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization.

LAST CHANCE FOR ANIMALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

1. Nature of Organization and summary of significant accounting policies (continued)

Concentration of Credit Risk

The Organization is potentially subject to concentrations of credit risk by maintaining cash balances in excess of Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) insurable limits. As of December 31, 2021, cash in excess of FDIC insured limits totaled \$501,103 and investments in excess of SIPC insured limits totaled \$3,517,035.

Investments are held at a single investment brokerage company and are 76% of total assets on December 31, 2021.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Deposits at financial institutions are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC).

Contributions Receivable

The Organization records unconditional promises to give (contributions receivable) as support in the period the promise is received as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional contributions receivable contains a donor-imposed condition that represents a barrier that must be overcome before the Association is entitled to the assets promised. Failure to overcome the barrier gives the promisor a right of release from its obligation to transfer its assets. Conditional contributions receivable is recognized only when the conditions on which they depend are substantially met. Unconditional contributions receivable that are to be collected within one year are recorded at net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates applicable to the years in which the promises are received. Receivables are stated at the amount management expects to collect. Management provides for uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on their assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Contributions receivables as of December 31, 2021, are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary. On December 31, 2021, all contributions receivables were due within one year.

Revenue Recognition

The Organization principally generates revenue from contributions and bequests. Contributions are recognized when received. Unconditional promises to give (pledges), less allowance for uncollectible amounts, are recorded as receivables and revenues in the appropriate net asset category in accordance with donor-imposed restrictions.

Property and Equipment

Property and equipment are reported at cost. Expenditures for major additions and improvements are capitalized. Minor replacements, maintenance and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the activities for the respective period. Depreciation is provided using an accelerated method based on estimated useful lives ranging from 5 to 7 years.

LAST CHANCE FOR ANIMALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

1. Nature of Organization and summary of significant accounting policies (continued)

Donated Services, Goods and Facilities

A substantial number of volunteers have donated time to the Organization's program services and fundraising campaigns during the year. Donated services that do not require specialized skills are not reflected in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Tax Status

The Organization is organized as a California non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and has been determined not to be a private foundation under Sections 509(a)(1) and 170(b)(1)(A)(vi). Accordingly, contributions to the Organization qualify for the charitable contribution deduction under Section 170. The Organization is generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined the Organization has no unrelated business taxable income related to the Organization activities and it has not filed the Exempt Organization Business Income Tax Return (IRS Form 990-T). Tax years ended 2018, 2019, and 2020 are still open to audit for both federal and state purposes.

Management believes that it has appropriate support for any income tax positions taken, and, as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

2. Investments

Investment income includes interest, dividends, realized and unrealized gains and losses and is reflected net of direct investment fees and expenses. Investments represent unrestricted endowments held in "available for sale securities." These securities consist primarily of mutual funds that pay dividends on a quarterly basis. Investments are carried at current market value as of December 31, 2021. Gains and losses on sales of securities are recognized when sold. Unrealized increases and decreases in value are recorded during the year and as an adjustment to unrestricted net assets.

LAST CHANCE FOR ANIMALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

3. Property and equipment

Major categories of property and equipment on December 31, 2021, are as follows:

Computer equipment	\$	142,971
Investigative equipment		111,860
Computer software		4,550
Office furniture and other equipment		36,277
Vehicle - Animal News Van		59,425
		<u>355,083</u>
Less: accumulated depreciation		<u>(309,408)</u>
	\$	<u>45,675</u>

Depreciation for the year ended December 31, 2021, was \$17,636.

4. Intangibles

Major categories of intangibles on December 31, 2021, are as follows:

Website Design	\$	<u>81,980</u>
		81,980
Less: accumulated amortization		<u>(19,597)</u>
	\$	<u>62,383</u>

Amortization for the year ended December 31, 2021, was \$9,597.

5. Line of credit payable

The Organization has an unsecured \$25,000 credit line with a financial institution. Advances on the credit line are payable on demand and at the bank's variable rate which was 10.25% as of December 31, 2021, with interest payable monthly. The Organization had no amounts outstanding on the line of credit as of December 31, 2021.

6. Commitments

The Organization renewed a non-cancellable operating lease for its office space on September 1, 2021, through August 31, 2024. The monthly lease payments of \$7,013 began September 1, 2020, and will increase to \$8,220 on September 1, 2022. The space is for general office use that can be relocated at a relatively low cost to the Organization.

Rent expense for the year ended December 31, 2021, was \$87,158, which included \$84,158 for the operating lease and \$3,000 for monthly parking. Future minimum payments for the operating lease are as follows:

LAST CHANCE FOR ANIMALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

Years ending December 31,

2022	84,984
2023	87,492
2024	59,464
	<u>231,940</u>

7. Allocation of costs of activities that include fundraising

The Organization achieves some of its programmatic goals through direct mail campaigns, newsletters and events that include requests for contributions. The costs of conducting those campaigns included a total of \$495,910 of joint costs that are not directly attributable to either the program component or the fundraising component of the activities. These joint costs were allocated as follows:

Programs	396,728
Fundraising	99,182
	<u>\$ 495,910</u>

8. Allocation of program services expenses

For the year ended December 31, 2021, the Organization participated in the following programs:

Program Services	
Investigations	\$ 712,888
Education and public outreach	<u>1,776,224</u>
	<u>\$ 2,489,112</u>

9. Related party transaction

During the year ended December 31, 2021, there were no related party transactions.

10. Income taxes

The Organization is a tax-exempt Organization and is not required to pay Federal or State income taxes. The State of California charges an annual fee of \$10, and an Attorney General renewal fee is charged based on gross revenue. The Attorney General fee for 2021 was \$150.

The Organization files tax returns on a calendar year basis. The Organization is no longer subject to federal, state, and local income tax examinations by tax authorities for years prior to 2016.

11. Policies

The Organization has implemented additional systems of internal control. An established committee assumes responsibility for oversight of the audit, review, or compilation of the financial statements and the selection of the independent accountant. Policies regarding conflict of interest, document retention and destruction and whistleblowers are distributed to the employees and board of directors.

LAST CHANCE FOR ANIMALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

12. Fair Value of Financial Instruments

The Organization applies the principles of *ASC 820, Fair Value Measurement*, for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. This standard defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. The standard clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Organization establishes a three-level fair value hierarchy that prioritizes the inputs used in measuring fair value as follows:

Level 1 Assets that have readily observable prices (quoted prices in active markets accessible at the measurement date for assets). The fair value hierarchy gives the higher priority to *Level 1* inputs.

Level 2 Assets that are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, forward contracts, future contracts, interest and credit swap agreements, options, and interest rate swaps.

Level 3 Assets whose fair value cannot be determined by using observable measures and can only be calculated using estimates or risk-adjusted value ranges, when little or no market data is available. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are, therefore, determined using factors that involve considerable judgement and interpretations, including, but not limited to, private and public comparable, third-party appraisals, discounted cash flow models, and fund manager estimates. The fair value hierarchy gives lower priority to *Level 3* inputs.

Assets and liabilities measure at fair value are based on one or more of three valuation techniques noted below:

- (a) *Market approach*. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- (b) *Cost approach*. Amount that would be required to replace the service capacity of an asset (replacement cost).
- (c) *Income approach*. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

2021

Assets	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 4,017,035	\$ -	\$ -	\$ 4,017,035
Cash Equivalents	\$ 751,103	-	-	\$ 751,103
Total Assets	\$ 4,768,138			\$ 4,768,138

As a result of further analysis of the characteristics of certain financial instruments during the preparation of its 2021 financial statement disclosures, the Organization has determined that all of its financial instruments are measured at Level 1.

LAST CHANCE FOR ANIMALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

13. Schedule of Functional Expenses

	EDUCATION & PUBLIC OUTREACH	INVESTIGATIONS	FUNDRAISING	GEN & ADMIN	TOTAL
Payroll Expense	281,184	283,830	61,671	5,169	631,854
Direct Mail	396,728	-	99,182	-	495,910
Professional Fees	249,716	59,522	8,820	10,173	328,231
Campaigns	189,434	-	-	-	189,434
So Korea Dog Meat	108,270	79,707	-	-	187,978
Contributions Other Groups	25,302	100,000	-	-	125,302
Employee Benefits	74,104	41,495	4,101	1,266	120,965
Public Relations	99,682	-	-	-	99,682
Rent	43,579	34,863	5,229	3,486	87,158
Lobbying Contributions	72,682	-	-	-	72,682
Computer Expense	54,794	11,554	2,913	1,509	70,769
Donation Processing Fees	-	-	58,001	-	58,001
Investigations Fees & Exp	-	55,938	-	-	55,938
Insurance Expense	32,865	12,620	3,031	2,040	50,556
Investment Advisory Fees	-	-	-	32,033	32,033
Meals & Entertainment Exp	17,549	4,507	-	100	22,156
Delivery & Postage	15,191	39	4,285	64	19,579
Animal News Van Exp	16,006	-	-	-	16,006
Advertising	6,600	-	9,267	-	15,867
Protest & Petition Exp	15,292	-	-	-	15,292
Social media expenses	14,117	-	-	-	14,117
Charitable Registration Fees	-	-	12,888	-	12,888
Automobile Expense	9,805	-	-	-	9,805
Film & Video	4,695	5,000	-	-	9,695
Office Expense	5,491	2,059	420	1,593	9,563
Telephone Expense	6,796	2,124	319	212	9,451
Press Releases	9,997	-	-	-	9,997
Bank & Interest Charges	3,052	3,644	639	323	7,657
Dues and Subscriptions	5,520	-	-	440	5,960
Travel	3,394	-	-	-	3,394
Printing and Reproduction	2,521	-	-	-	2,521
Gift Expense	1,519	-	23	-	1,543
Staff Recruiting	525	382	-	-	907
Film & Video Supplies/Editing	119	-	-	-	119
Depreciation & Amortization	9,692	15,602	1,163	775	27,232
Totals	1,776,224	712,888	271,951	59,183	2,820,246

LAST CHANCE FOR ANIMALS

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

14. Pension Plan

Upon approval from the Board of Directors, the Organization established a discretionary profit-sharing plan in 2014. Contributions to the plan during 2021 were \$52,500. There are no unfunded benefits in connection with this plan for the year ended December 31, 2021.

15. Subsequent Events

Management evaluated events and transactions that occurred after the statement of financial position date through August 31, 2022, for potential recognition and disclosure. The organization did not have any subsequent events through that date (which is the date the financial statements were available to be issued) for events requiring recording or disclosure in the financial statements for the year ended December 31, 2021.